



WYOMING LEGISLATIVE SERVICE OFFICE

Wyoming Funding Model External Cost Adjustment Process

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RE: Wyoming Funding Model External Cost Adjustment Process

PURPOSE

Recommending an external cost adjustment (ECA) to the Joint Appropriations Committee (JAC) for the education resource block grant model (Funding Model) for school year (SY) 2019-20, is among the approved interim topics for the Joint Education Interim Committee (Committee). Specifically, the topic provides for the Committee to review cost pressures on the Funding Model through reports submitted pursuant to W.S. 21-13-309(u) and make a recommendation regarding an ECA for SY 2019-20 to the JAC by October 15, 2018. This introduction paper provides a synopsis from the Legislative Service Office (LSO) on the Funding Model ECA process and review how that process has evolved since the 2010 recalibration of the Funding Model.

HISTORY

Funding Model ECAs reflect the changing costs of resources in the interim years between Funding Model recalibrations. The 2010 recalibration report determined funding for K-12 education exceeded the cost-basis of providing the statutorily required educational program to Wyoming public school students. Although the 2011 Legislature forwarded K-12 funding at levels above those specified within the 2010 recalibration report as cost-based, it also recognized a need for a more robust or sophisticated process to monitor the cost-basis of the Funding Model as it converged over time with recommended funding levels.

This monitoring process was established by law to provide the Legislature with a series of reports

designed to enable informed decisions on funding provided to school districts through the Funding Model in context of the overall statewide budget process.

Between years of recalibration, the Funding Model monitoring process provides the Legislature with information to consider an ECA to adjust the Funding Model's personnel and non-personnel prices. The Legislature considers cost pressures on professional staff, non-professional staff, energy, and supplies and materials.

Core Principles of Monitoring Process

The following core principles guide this monitoring process:

- ✓ Cost pressures are identified when indicators show changes relative to previous levels, and trends are most readily identified when there are broad based changes in several measures;
- ✓ All indicators have some transitory year-to-year variation and as such, the process seeks high quality data series that are consistent over time;
- ✓ As new data collections are developed and become available, it is important to retain enough consistency with former measures to enable tracking of evolving trends in market conditions;
- ✓ Changes in supply and demand conditions and changes in district outcomes are monitored; and
- ✓ If several indicators reflect deviations from historical ranges, the process invokes the

collection of a deeper set of cost data to confirm the presence of cost pressure.

The monitoring process also incorporates by law the **annual report** produced by the Wyoming Department of Education (WDE) based upon resource utilization patterns of school districts in comparison to Funding Model-generated resources.

Historic External Cost Adjustments

Between the 2005 and 2010 Funding Model recalibrations, the Legislature applied a single ECA to the Funding Model and did not differentiate between Funding Model categories (professional staff, non-professional staff, energy, and supplies and materials).¹ Table 1 depicts the ECAs enacted by the Legislature to the Funding Model between 2005 and 2010 recalibrations. Note: The ECAs provided between the 2005 and 2010 recalibration were cumulative.

Table 1. Funding Model ECAs Between 2005-2010 Recalibrations.

School Year	ECA Value	Cumulative ECA Value
2006-07	<i>1st Year of Recalibrated Model</i>	
2007-08	3.80%	3.80%
2008-09	4.30%	8.26%
2009-10	3.70%	12.27%
2010-11	0.00%	12.27%

Source: LSO analysis.

Between the 2010 and 2015 Funding Model recalibrations, the Legislature, using the monitoring process, applied ECAs to the Funding Model to four different categories: 1) professional staff, 2) non-professional staff, 3) energy, and 4) supplies and materials. Table 2 depicts the ECAs enacted by the Legislature to the Funding Model between 2010 and 2015 recalibrations for each Funding Model category. Note: The ECAs provided between the 2010 and 2015 recalibration were cumulative, but limited by law² through SY 2015-16.

Table 2. Funding Model ECAs, by Category, Between 2010-2015 Recalibrations.

School Year	Prof. Staff	Non. Prof. Staff	Energy	Supplies & Materials
2011-12	<i>1st Year of Recalibrated Model</i>			
2012-13	0.00%	0.00%	0.00%	0.00%
2013-14	0.00%	0.00%	0.00%	0.00%
2014-15	1.045%	0.995%	-0.53%	0.75%
2015-16	2.675%	2.375%	4.77%	2.93%

Source: LSO analysis.

For SY 2014-15, the Legislature also allocated a one-time \$6,000,000 salary increase to school districts in addition to the ECA.

Since the ECAs enacted for SYs 2014-15 and 2015-16 were time-limited, the Legislature revisited the ECAs provided for those school years during the 2016 Budget Session. Table 3 depicts the ECAs enacted by the Legislature between the 2015 and 2017 recalibrations.³ Note: The ECAs were only enacted for each school year and were not cumulative.

Table 3. Funding Model ECAs for Between 2015-2017 Recalibrations.

School Year	Prof. Staff	Non. Prof. Staff	Energy	Supplies & Materials
2016-17	2.148%	1.947%	2.445%	2.126%
2017-18	1.462%	1.326%	1.665%	1.447%

Source: LSO analysis.

During the 2017 General Session, the Legislature repealed the ECAs slated for SY 2017-18, but also calibrated non-personnel prices to recommended levels. The effect this had on the Funding Model was twofold: 1) Personnel prices equaled amounts in law prior to the ECAs enacted during SY 2014-15; and 2) Calibrating the prices of non-personnel categories to reflect the 2015 recalibration recommendations from the Legislature's school finance consultants, as increased by the recommended ECAs, *reduced* total funding from the supplies and materials and energy categories.⁴

¹ The index utilized was the Education Cost Index-Education Service Workers.

² See 2014 Wyoming Session Laws, Chapter 26, Section 2, Section 205, as amended by 2015 Wyoming Session Laws, Chapter 142, Section 2, Section 205.

³ 2016 Wyoming Session Laws, Chapter 31, Section 2, Section 205.

⁴ See 2017 Wyoming Session Laws, Chapter 205.

Professional and Non-Professional Personnel

Monitoring the cost-basis of components comprising professional and non-professional personnel categories of the Funding Model is accomplished by outside consultants using readily available labor market data. Dr. Christiana Stoddard has historically updated labor market information used to monitor the cost pressures on teacher salaries in Wyoming. During the 2017 recalibration, the Legislature's school finance consultants, Augenblick, Palaich and Associates (APA), updated and provided similar analysis.

Dr. Christiana Stoddard will perform this analysis for the Legislature during the 2018 interim for professional and non-professional staff. Dr. Lori Taylor has **recommended cost indices** for the personnel categories based upon her analysis from the 2015 recalibration. For professional labor, Dr. Taylor recommends the Wyoming Comparable Wage Index (CWI) and for non-professional labor, she recommends the Wyoming high school CWI. These same cost indices were endorsed by APA in last year's recalibration. Dr. Taylor will update these cost indices as part of her work for the Legislature's consideration during the 2018 interim.

Supplies and Materials

The Legislature calibrated the supplies and materials components of the Funding Model to the prices recommended during the 2015 recalibration. The Legislature further adjusted those prices by the change in the recommended cost index for SY 2017-18 during the 2017 General Session. Dr. Taylor has recommended the Producer Price Index – Office Supplies and Accessories, as calculated by the United States Bureau of Labor Statistics, as the cost index for the supplies and materials category. The LSO annually updates this index for the Legislature's consideration.

Energy

The Legislature calibrated the energy or utilities component of the Funding Model to the prices recommended during the 2015 recalibration. The Legislature further adjusted those prices by the change in the recommended cost index for SY 2017-18 during the 2017 General Session. Dr. Taylor has recommended adjusting supplies and materials by a weighted average of the following cost indices:

- ✓ Producer Price Index – Commercial Electric Power (29.10 percent weight);
- ✓ Producer Price Index – Commercial Natural Gas (58.54 percent weight); and
- ✓ Producer Price Index – Gasoline (12.36 percent weight).

The LSO annually updates this index for consideration by the Legislature.

POTENTIAL AREAS OF COMMITTEE REVIEW

For Committee members that are new to this process, I would recommend that you review prior monitoring reports to provide context to this issue. The reports can be found at the Legislature's website:

<http://www.wyoleg.gov/StateFinances/SchoolFinance>. Once on the website, click on the "Reports" tab and select "K-12 Funding Model Monitoring Reports" from the dropdown menu. Familiarizing yourself with the layout of the reports will benefit you for the September 27-28 meeting when the Committee will receive the 2018 monitoring report information. Members may also want to review APA's report on **teacher salaries** from the 2017 recalibration, which evaluated teacher salary information in a similar format as Dr. Stoddard.

At the September 27-28 meeting, the Committee can make its Funding Model ECA recommendation for SY 2019-20 to the JAC. This allows the Committee to meet the October 15 requirement set forth by W.S. 21-13-309(u). The JAC can then make its own recommendation regarding an ECA to the Funding Model to the Governor and Legislature by November 1.